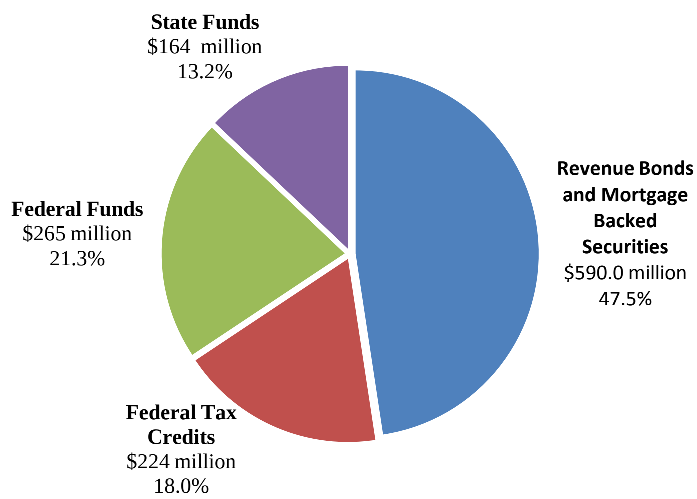
DHCD Capital Budget Hearing

DHCD Highlights

DHCD works in partnership with private entities *to finance and support affordable and energy-efficient homeownership, rental housing, small businesses, neighborhood revitalization and municipal infrastructure projects that change Maryland for the better.*

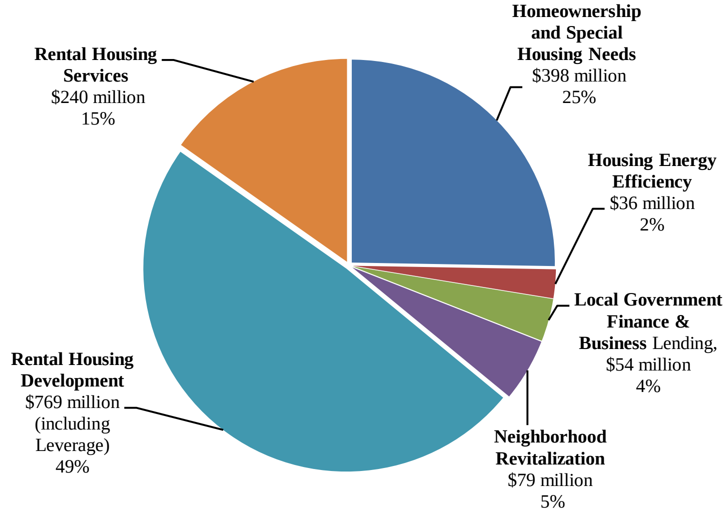
DHCD remains distinctive in its capability to leverage limited State funds to raise significant amounts of private capital *-- spurring economic growth, creating jobs, providing safe affordable rental housing and sustainable homeownership while also revitalizing communities.*

State funds on average have remained in the 10% percent range of DHCD's total loan and grant program activity for the past five years*, enabling DHCD to generate a total of $6.5 billion worth of housing, small business, local government infrastructure and revitalization financing using only $684 million of State funds. FY 2018 fund sources and allocations are shown on the chart to the right. Those fund sources allowed* ***DHCD to produce over $1.3 billion of FY 2018 program activity.***



DHCD's programs consistently generate significant total economic impact for Maryland using limited State funding. In FY 2018, every dollar of State funding generated $18 of economic impact in Maryland - $3.0 billion in total, supporting close to 13,000 jobs and generating approximately $50 million in State and local tax revenues*.*

FY 2018 DHCD program activity continued to be strong, particularly in multifamily and single family housing. *In FY 2018, DHCD financed over 3,500 affordable rental housing units; homeownership and special needs housing programs provided close to 6,500 loans to Marylanders and provided 10,134 homeless youth and adults with transitional housing. The bulk of DHCD's FY 2018 activity was funded through revenue bonds and mortgage-backed securities – DHCD helped facilitate strong growth in small business lending, energy efficiency improvement programs and local government infrastructure statewide. In FY 2018, more than 4,000 loans/grants were awarded towards energy efficiency-related projects while funding 24 small businesses and local government projects.*



Lastly, in Baltimore City, the States $75 million for C.O.R.E.'s four-year allocation has been directly matched by $302.23 million by the City and private partners. Recent economic impact study revealed the lasting impact this project will have on the city.

DHCD's revenue bond and mortgage-backed security issuances and portfolios are self-supporting, without any debt service costs to the State or operating cost burden to taxpayers. *The capital raised by DHCD through its revenue bond and mortgage-backed securities issuances amounts to half of the total capital raised by the State of Maryland through its General Obligation Bond issuances during the same period, with no debt services costs to the State or reliance on the good faith and credit of the State.*

DHCD continues to manage a ***$3 billion portfolio*** *of Community Development Administration assets and liabilities, including single family and multifamily mortgage revenue bonds with underlying mortgage-backed securities, mortgage loans and investments. DHCD has a fiduciary responsibility to private market investors to carry out ongoing transactional servicing and portfolio management of these assets and debt securities, provide U.S. Securities and Exchange Commission-mandated disclosures and ensure federal tax law compliance for up to 30-40 years. DHCD also manages over $**1 billion portfolio** of State and federally-funded loans.*

DHCD has achieved these FY 2018 results and carried out the ongoing portfolio management with the capacity of 331 full time positions (PINs). DHCD's administrative expense ratio (administrative operating expenses as a percentage of loan and grant program activity) continues to be very low, with very little General Funds used to support existing personnel or other operating costs.

1. DLS Recommendation (page 14 of the analysis)

LGIF Rural Broadband: The Department of Legislative Services (DLS) recommends deleting $9.68 million in GO bond funding for this project, as there is limited capacity in the capital budget and competing, higher priority funding needs.

<u>DHCD Response</u>

DHCD respectfully requests the full $9.68 million in GO Bonds for this critical initiative focused on partnerships with local counties in their pursuit of leveraging greater broadband coverage.

The oft mentioned possibility that 5G technology will address the lack of broadband coverage in rural areas is not a realistic solution to the problem as it exists right now, will exist for the next 5-10 years, or as it has existed for decades to-date. The new 5G technology will be deployed in densely populated urban areas first with a multiyear lag for the currently underserved rural areas if it arrives at all. **The rural broadband infrastructure proposed to be built now will help create the logistical ease for faster adoption of 5G technology in thinly covered or underserved rural areas.**

The DLS Analyst offered statistics from a private website, *Broadband Now*, to summarize Maryland's broadband coverage. This website actually specializes in providing contact information for those searching for a broadband provider. Further, *Broadband Now* relies on the internet service provider's supplied data in its analysis – data that has been shown to be overly optimistic in its reporting. While the percentages reported are likely not the most accurate, they do however, still offer a startling picture.

The 5 to 18 year old population of Charles County is 28,905. Per the *Broadband Now* statistics for Charles County, 6.3% of residents lack broadband service at 25 Megabits per second (Mbps), or 1,710 school aged children. This means over 1,700 students in one typical rural county cannot effectively do their homework, take practice standard tests, collaborate with peers or take online classes that would help them move towards a college degree. At a recent town hall meeting on broadband service that took place in Bel Alto, Charles County, over 100 people took time on a Wednesday evening to discuss their lack of broadband service – this is an issue that the public wants solved.

Looking at a more urban county, Montgomery County, where *Broadband Now* data shows an unserved population of only 1.2%. Examining the data at a household level reveals that, per provider reporting; only 206 households are lacking 25 Mbps internet service. In reality, based on Montgomery County's own survey, there are approximately 2,400 households in their agriculture reserve area that are unserved. If one looks at the 1.2% of population estimated from the *Broadband Now* data, of the 5-18 year old population, there are over 2,100 students in the County considered unserved.

The most destressing stories are that cars pull into the McDonald's parking lot after the library closes at night and sit with dome lights on, not to eat french fries and drink coffee, but to allow children to finish their homework using the free Wi-Fi because they don't have broadband at home. This is not how we should be educating our future.

There is one constant in the rural areas that lack broadband service: low population density. In areas where there are not enough homes to justify an investment, broadband providers will not expand. This is borne out by cable franchise agreements that are struck with an 18-20 houses per mile expansion requirement. Providers will not accept lower expansion requirements because the return on investment (ROI) is just too low to justify the investment. Because their ROI is lower, some smaller providers will expand into areas with 10-12 houses per mile, but nowhere near the 5-10 houses per mile in our rural areas. In order to encourage the necessary expansion, the State must look to leveraging.

The Office of Rural Broadband has elected to use the FCC Form 477 data to estimate the State's unserved areas. This data is provider reported to the FCC twice a year and while it is commonly believed that the data is questionable and overstates the coverage, it does provide an indication of where broadband is lacking (see exhibit 1). The Office has also elected to use the FCC estimate of 30.7% of rural residents lacking terrestrial broadband service, with some adjustments, until better data is available. Based on this data, we have identified a need of $100 Million to correct the digital divide across 17 Counties. A five year projected budget has been developed to assist in solving the issue (see exhibit 2 and 3). The order shown on the construction budget is for example only and could change based on the Counties desires, funding provided and other influences.

The State is heavily reliant on partnerships with the Counties in order to move forward. The Counties have the data, a duty to their residents, and have the relationship with their providers. The State can assist in their efforts by providing leveraging opportunities as well as expertise and guidance. Because the cost per household to provide broadband access is so high in rural areas, grants are a necessity. A generic construction cost model has been developed to better explain the costs, based on debt service, for a typical broadband project. The costs are presented on a per subscriber, per household past and per County taxable household basis, both with and without a grant (exhibit 4). In all cases, the actual cost of service must be added to the costs shown. Without a grant, most projects carry too high an user cost for most households to afford. This impacts the adoption rate, further impacting the overall sustainability of the project. With a grant leveraged against other monies provided, the costs are much more affordable, allowing an untenable project to become successful and sustainable.

To date via a Request for Interest, we have enlisted four counties to apply for a USDA pilot grant program. This program has only been funded for one year and it is not known if it will receive future funding. When we solicited interest from the Counties, we received 11 responses. This shows a strong interest from the Counties in working towards a solution. Based on a number of factors, the Counties selected to proceed with are Dorchester, Harford, Montgomery and Talbot.

2. DLS Recommendation (page 14 of the analysis)

NBW: **DLS recommends deleting $8 million in GO bond funding for this program to be partially replaced by $3 million in general funds.**

DHCD Response

DHCD respectfully requests the approval of the full $12.2 million request for this program, and to retain GO Bonds for the program.

It is incumbent upon the State of Maryland to create an economic boost to its QOZs as quickly as possible through its existing economic development programs within DHCD, including NBW. The additional $5 million in NBW funds will serve as a catalyst to attract time-sensitive private investments into the 149 federally tax-incentivized Qualified Opportunity Zones in the State. QOZs are traditionally underserved and underinvested low income census tracts. Maryland competes for private investment capital nationally. NBW lending program with its underwriting and asset management staff are existing State program management assets ready to be deployed to provide appropriate level of capital incentives in order to leverage private equity investment. The NBW program investments will be targeting operating and start-up businesses as well as mixed use real estate projects.

NBW program current pipeline of over $25 million of requested funding needs additional State investment in order to further leverage DHCD's capacity to borrow the rest of the funds in the private capital markets in support of small businesses. DHCD has the program structure, expertise and operational capacity to handle the expanded NBW program and its growth over the coming years.

Additionally, DHCD would like to clarify that the chart presented in Exhibit 8 of the DLS Analyst report underestimates the production levels for NBW as it needs to include significant funding by CDA and support from the Maryland Housing Fund to leverage private investments into the expanded NBW program. Most notably, during FY 2018, the NBW program delivered in excess of $25 million of project funding through State appropriated capital, CDA, and MHF to support small businesses around the State, an amount significantly greater than the $7.8 million referenced in the DLS Analyst report.

Finally, DHCD would like to clarify that the DLS Analyst makes reference to a predominance of NBW state appropriated capital during the FY 2014 to FY 2018 being used in Baltimore City and Howard County. We believe it is important to note that these funding levels do not reflect the program's broader Statewide focus, but rather are the result of the program being used to deliver significant disaster-related assistance to these localities in response to Civil Unrest in Baltimore City and multiple flooding events in Ellicott City.

3. DLS Recommendation (page 15 of the analysis)

Ellicott City*:* DHCD should comment on the pace of further assistance and whether any undisbursed assistance should be returned to the source fund(s).

DHCD Response

DHCD was allocated up to $2.5 million of Catastrophic Event Account funds to support Ellicott City and several surrounding Counties in response to flooding events in May 2018. Approximately $900,000 of this total has been disbursed, with $1.6 million remaining, as follows:

- $500,000 was provided to 10 businesses
- $79,230 was deployed for rental assistance for households displaced by the flooding
- $360,000 has been or is expected to be disbursed to homeowners for repairs not otherwise covered by insurance or other proceeds. This aspect of relief is in the final stages, and is expected that a total of approximately 80 households will be assisted when complete.

DHCD requests to retain the remaining balance of $1.6 million to provide flexibility to assist with broader rebuilding efforts in downtown Ellicott City. To that end, DHCD is expecting a coordinating meeting to be held with County Executive Calvin Ball in the near future.

4. DLS Recommendation (page 18 of the analysis)

SDF*:* DLS recommends deleting $13.85 million in GO bond funding for this program to be partially replaced by $9.85 million in general funds.

DHCD Response:

DHCD respectfully and strongly disagrees with the position that funding for the Strategic Demolition Fund (SDF) should be reduced. The Department also seeks to retain GO Bonds for SDF.

Any reduction in funding would in particular damage the strong momentum of Project C.O.R.E. The following pipeline of high priority C.O.R.E. targets cannot be addressed in FY20 if funding is reduced:

- 500 rowhouses demolished/deconstructed, $13,000,000
- 50 vacants stabilized for new homeownership $ 2,000,000
- Choice/Perkins Homes demolition $ 2,000,000
- Gilmor Homes demolition $ 2,000,000
- Vacant school demolition (2) $ 2,000,000
- FY20 Nonprofit/Private partner RFA $ TBD

The Department's additional response below starts with a focus on Project C.O.R.E., which is eliminating blight and fostering renewal in Baltimore City. SDF also provides funds statewide of $3.5 million in recent years and is in the Governor's FY 2020 budget at $5.5 million. The SDF-statewide will be discussed further below.

I. Project C.O.R.E. Overview

Project C.O.R.E. initiative funded via the Strategic Demolition Fund has made substantial progress in eliminating units of blight across Baltimore City. Exhibit 10 on page 17 of the Capital Budget Summary references a total of 1,720 units of blight removed as of the end of Fiscal Year 2018. The Department clarifies that in Fiscal Year 2018, there were 93 properties of blight removed, 67 by demolition and 26 by deconstruction, rather than 29 as stated on page 17 of the Capital Budget Summary. As we will be reporting in our FY 2019 Quarter 2 Report, the initiative has demolished, deconstructed or stabilized nearly 2,300 units of blight, as demonstrated by the table below:

Units of Blight Removed in Baltimore City January 2016 through December 2018	
Track	**Units of Blight Removed**
MSA Demo and Decon	399
DHCD RFA Award Recipients	771
Baltimore City	1,125
Total	**2,295**

As seen below, the pace of properties released by Baltimore City has increased in the past half year, averaging about 100 properties per month beginning summer 2018. From the end of May to the end of the year, the City has released nearly 540 properties for demolition or deconstruction, providing a pipeline of properties for blight elimination.

The Baltimore Gas and Electric Company (BGE) is a key partner in the success of Project C.O.R.E. BGE's role in this work is very important in that electric and gas cut-offs must be verified before demolition can take place to ensure worker and community safety.

However, DHCD recently learned that BGE has put a hold on its verification process as well as calling into question, sites that had previously been approved by BGE for demolition. The verification process was put on hold because several gas leaks were identified and worker and community safety could be compromised. As a result, BGE is re-verifying the existing properties and then they will commence verification of any new properties to be released.

Consequently, this has brought the demolition progress of the Stadium Authority to a near halt, affecting more than 300 units otherwise ready to be demolished. This re-verification process is also impacting the deconstruction crews and the City of Baltimore's in-house demolitions. The resolution of this matter is now underway and priority properties are now slowly being released/ verified for demolition once again. However, it will be a few months before the re-verification process is complete and the workflow is back on schedule.

The following chart shows unit projections for the Project C.O.R.E. initiative:

Project C.O.R.E. Unit Projections									
Units by Track	**Units Blight Removed Jan 2016-Dec 2018**	**In Progress Units Blight Removed**	**Units Projected Release FY19 Q3**	**Units Projected Release FY19 Q4**	**Subtotal End FY19**	**Units Projected Release FY20 Q1**	**Subtotal End FY20 Q1**	**Units Projected Release FY20 Q2**	**Total End FY20 Q2 2019 Released, In Progress, or Blight Removed**
MSA Demo and Decon	399	496	115	75	1,085	105	1,190	192	1,382
DHCD RFAs	771	489	NA	NA	1,260	TBD	1,260	TBD	1,260
Baltimore City	1,125	69	59	81	1,334	152	1,486	19	1,505
Total	**2,295**	**1,054**	**174**	**156**	**3,679**	**257**	**3,936**	**211**	**4,147**

The table above clearly demonstrates the momentum that has been built over the past three years. In order to take advantage of the momentum, continue the progress of blight elimination thereby increasing the health and safety of residents, full funding at the Governor's allowance should be maintained.

Following is a full discussion of Project C.O.R.E.'s impact, demand for investment, and investment priorities.

1. Project C.O.R.E. Impact: FY16 through FY19

DHCD believes that the Governor's Project C.O.R.E. initiative is catalyzing historically high levels of revitalization investment in Baltimore City. From FY 2016 through the end of FY 2019, $75 million of state funds is directly leveraging an additional $227.2 million in other local public and private funds, for a total direct project investment of $302.2 million in blight removal and redevelopment. In addition, complementary investment from other DHCD programs (revitalization, multi-family and single family programs) from FY 2016 to FY 2018 in Project C.O.R.E. areas totals $286.3 million in projects with total project investment of $737.9 million.

Project C.O.R.E. has been an example of a strong partnership among many entities working together to remove blight and stimulate new economic activity in the City of Baltimore. The State's $75 million investment in the partnership has been a key to its success, and a key to catalyzing other public and private investment to join in. The total overall investment for Project C.O.R.E. from state funding, and required matching funds from Baltimore City and nonprofit partners, is illustrated in the following table.

Project C.O.R.E $75m State Funding- and matching funds	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**TOTAL**
DHCD Project CORE through MSA	$7,100,000	$1,890,000	$7,610,000	$25,000,000	**$41,600,000**
DHCD Project CORE through Requests for Application (RFA)	$2,775,000	$16,110,000	$14,515,000	N/A*	**$33,400,000**
Community Development Organizations Matching the RFA	$14,930,657	$105,259,679	$74,709,612	N/A*	**$194,899,948**
Baltimore City Matching Project CORE	$3,679,607	$11,762,865	$10,643,871	$6,250,000	**$32,336,343**
TOTAL PROJECT CORE COMMITMENT	**$28,485,264**	**$135,022,544**	**$107,478,483**	**$31,250,000**	**$302,236,290**

** DHCD did not do a RFA round in FY19; all state funds will be utilized by MSA*

The $75 million state funds were deployed through two mechanisms (as illustrated above):

- $33.4 million by DHCD through a competitive Request for Application Process
- $41.6 million by Maryland Stadium Authority, removing blight via Notice To Proceeds (NTP) from the City

As shown in the chart below, demand for Project C.O.R.E. funds is very high; DHCD's competitive award process (RFA) for $33.4 million of C.O.R.E. funds in FY 2016, FY 2017 and FY 2018 resulted in 155 applications requesting over $184 million dollars. The $33.4 million was awarded to 65 projects, and resulted in $194 million in additional investment, for a total of $228 million overall.

DHCD track: RFA competitive process

FY	**Demand**	**No of applications**	**No. Awards**	**Total Award Amount**	**Leverage**	**Total Project Cost**	**Oversubscription ratio**
2016	$10,389,325	16	10	$2,775,000	$14,930,657	$17,705,657	3.7
2017	$76,438,372	78	31	$16,110,000	$105,259,679	$121,369,679	4.7
2018	$98,124,744	61	24	$14,515,000	$74,709,612	$89,224,612	6.8
Totals	**$184,952,441**	**155**	**65**	**$33,400,000**	**$194,899,948**	**$228,299,948**	**5.5**

In addition to traditional demolition and stabilization, Project C.O.R.E. has also partnered with the nonprofit Humanim's "Details" program for deconstruction of vacant blighted properties. "Details" has 27 full-time employees (75% of whom are formerly incarcerated) that receive an average wage of $15.80 per hour and full benefits; "Details" has a 0% rate of recidivism among its workforce.

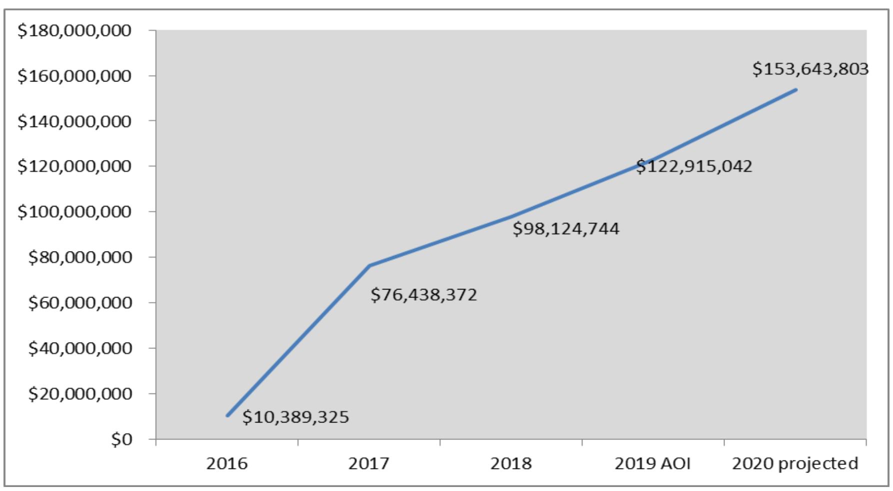
2. Demand for Project C.O.R.E. Investment, FY 2020 and beyond.

As stated above, demand for C.O.R.E. through DHCD's competitive application process was very high. For all three funding years, the program was oversubscribed by a ratio of 5 to 1.

To assess the need for future Project C.O.R.E. funding from our community development partners, this past summer, DHCD issued an Application of Interest (AOI) for Project C.O.R.E. funding. *Through the AOI, (due on August 10th, 2018), the Department received 54 applications requesting a total of $122.9 million in Project C.O.R.E. funding*. If funded, these projects are estimated to leverage an additional $261.8 million in private and other public investments. This demand illustrates how critical Project C.O.R.E. predevelopment funding is as a catalyst to major reinvestment projects.

DHCD expects to see a continued rise in applications and funding requests. The graph below illustrates the total dollar value of requests for Project C.O.R.E. funds received in FY 2016-2019; DHCD experienced a roughly 25 percent increase year over year in all three years. Based on that trend, it is projected that DHCD could receive $150 million in applications in FY 2020, should funding be made available.

Total dollar value of application requests by fiscal year



3. Key Investment Priorities for Project C.O.R.E., FY 2020 through FY 2023

Since the commencement of Project C.O.R.E., MD DHCD and MSA have worked very closely with Baltimore Housing, the City Housing Authority, Baltimore Planning and other key City agencies and community-based nonprofits. Project C.O.R.E. funding is critical to all investment priorities, including:

a. Continued elimination of blight through demolition and deconstruction:
MSA is a powerful partner for the State in professional management of the demolition process. While the City has been slow to release properties for demolition, the MSA has quickly responded to available demolition sites. The Phase 4 process for demolition of 500 properties in 2018 proves that a high volume of demolition can be achieved as long as target blocks and partial blocks do not have households that need to be relocated. Therefore, in the next four year period, FY 2020 through FY 2023, DHCD believes a 1,000/unit per year pace of blight elimination is realistic (500 by State and 500 by City) if sufficient funding is provided.

b. Transformation of Derelict Public Housing:
The Housing Authority of Baltimore City is under new and aggressive leadership and the HABC recently created a new strategic plan to transform outdated public housing, including the following priorities for which Project C.O.R.E. funding will be critical:

- **Perkins/Somerset Homes in East Baltimore (PSO)**: Baltimore City just won $30 million in HUD Choice Neighborhood grant funding, one of only a handful of cities nationally to do so. DHCD 4% tax credits and Project C.O.R.E. Funds were a critical component to the HUD award, and continued Project C.O.R.E. funds will be important to this transformation initiative.
- **Gilmor Homes in West Baltimore**: This deteriorated complex is the former home of Freddie Gray. A transformation and demolition plan will commence in FY 2020.
- **O'Donnell Heights in Southeast Baltimore**: A multi-phase redevelopment is underway into which CORE funds have contributed demolition funds and CDA has contributed LIHTCs and other Department resources.

c. Historic Neighborhood Stabilization & Redevelopment:
These communities have master plans for which Project C.O.R.E. funding is critical:

- **Park Heights in Northwest Baltimore:** Transformation plan for a 10-acre cleared site near the Pimlico Race Track in partnership with local nonprofits and Sinai Hospital.
- **Upton/Druid Heights in West Baltimore**: Strategic demolition, stabilization, and infill development to create new parks and homeownership opportunities.
- **Johnston Square & Broadway East in East Baltimore**: With the success of the EBDI redevelopment in East Baltimore, these are the two next focus areas for reinvestment.
- **Southwest Partnership in Southwest Baltimore**: Revitalization of a -10-neighborhood area in partnership with local nonprofits, churches and the University of Maryland.

d. Revitalization of Major Commercial Districts

- **North Avenue: spanning West and East Baltimore**: This corridor is the target of multi-year collaboration and investment between MDOT, DHCD and Baltimore City. The CVS on North Avenue was "ground zero" for civil unrest in 2015.

- **Pennsylvania Avenue in West Baltimore**: This historic neighborhood business district includes a number of DHCD investments.
- **Baltimore Street in West Baltimore:** This historic business district is home to the emerging BioTech Park and complementary local commercial reinvestment.

e. Other important considerations for choosing C.O.R.E. demolition and stabilization sites:

- Maximizing the investment of private capital, including Opportunity Zone program.
- Maximizing demolition in targeted high-crime areas
- Proximity to 21st Century School investments and reuse of surplus school sites.
- Proximity to Anchor Institutions (Universities and Hospitals).
- Support for other major DHCD investments, such as LIHTC and RAD projects
- Implementation of the Baltimore City Green Network Plan.
- Reuse of historic landmark buildings.
- Creation of significant construction jobs or permanent jobs for local residents
- Minimizing any negative social impact and cost of resident relocation.

II. Strategic Demolition Fund- Statewide

As mentioned earlier, the Strategic Demolition Fund is also used to fund State-wide pre-development projects located outside of Baltimore City to spur economic development investment in Sustainable Communities and now Opportunity Zones throughout the State. The chart below illustrates that the $13.7 million investment from FY 2016 to FY 2019 has generated almost $193 million in total project costs, representing a ratio of $13 leveraged for every $1 invested.

State-wide Strategic Demolition and Smart Growth Impact Fund
Awards, Requests and Total Project Costs
FY 2016 through FY 2019

Fiscal Year	Total Requested Amount	Total Project Cost for Requests	Total Award Amount	Total Project Cost for Awards
2019	$10,950,396	$179,099,604	$4,467,400	$72,223,193
2018	$7,525,223	$100,761,100	$3,850,000	$59,384,843
2017	$8,103,471	$157,041,770	$3,500,000	$32,656,187
2016	$6,738,147	$56,598,905	$1,975,000	$28,582,004
Grand Total	**$33,317,237**	**$493,501,379**	**$13,792,400**	**$192,846,227**

5. DLS Recommendation (page 18 of the analysis)

Rental Housing: DLS recommends deleting $25 million in GO bond funding for this program to be partially replaced by $22 million in general funds.

<u>DHCD Response</u>:

DHCD respectfully requests the retention of the full amount of the Governor's Allowance, and to retain the $25 million in GO Bonds.

With the persistent high demand for affordable rental units the additional funds for RHP will enable DHCD to leverage the time-sensitive nature of the Opportunity Zone program. As noted by the DLS Analyst report, this program is consistently maximizing its production levels through deliberate State investments, and additional State funding will incrementally leverage Low Income Housing Tax Credit ("LIHTC") equity investment and other private and public sources critically necessary to continue to meet the demand for affordable rental housing across the State. Each $1 in State-appropriated GO Bond and General Funds yields $11-15 in private capital from CDA-issued tax-exempt bonds, CDA allocation-based LIHTC equity, other private and public sources.

This year, the Qualified Allocation Plan (QAP) – the document that is used as both a plan and application for Federal LIHTC credits – incentivizes both projects located in Opportunity Zones, and projects that attract Opportunity Zone Fund capital. This will likely open up QOZ areas for development and will increase demand for LIHTC and the associated state funds. The QAP process completed in 2018 resulted in over 40 applications and over 20 projects funded. We expect the QAP process in 2019 to generate even more applications largely due to several high priority policy objectives including Opportunity Zone production.

The RHP pipeline of demand supports the Governor's Capital Budget, and includes projects which provide housing for families, the elderly, public housing redevelopment and other important community-revitalization developments. ***The current pipeline includes:***

****over $52 million in state dollars,***
****$563 million in total project costs,***
****2,200 units created or preserved,***
****and over 4,500 estimated jobs.***

6. DLS Recommendation (page 21 of the analysis)

Homeownership: DLS recommends deleting $7.8 million in GO bond funding for this program to be partially replaced by $800,000 in general funds.

<u>DHCD Response</u>:

DHCD respectfully requests full funding for the Homeownership Program, and to retain GO Bonds for the Program.

The Opportunity Zone program is intended to direct private investment to low-income census tracts around the state of Maryland. This initiative will rely on creating homeownership opportunities to ensure that the redevelopment of low-income areas become and remain stable through the process of redevelopment and investment. The Maryland Mortgage Program (MMP) is uniquely positioned to provide mortgage assistance needed to serve these areas.

MMP offers below market mortgage interest rates, down payment / settlement assistance, and other tools to enable families to buy homes all across the State. Because of its income limits and purchase price limits, MMP would be available to the typical resident of Opportunity Zone areas. As new investment pours into Opportunity Zones, MMP will be in place to ensure two primary objectives are met. First, MMP will be available to ensure that current, low- to moderate-income families can afford to continue to buy homes in the increasing market caused by investment in these areas.

Second, MMP will support homeownership for the people who will be attracted to Opportunity Zones for the jobs created by increased investment. To put a face on it, let’s assume that Opportunity Zone investment allows for a new tech start-up to take root in a certain Zone. This will bring jobs to the area, likely other businesses will follow, but will also cause the housing market to heat up and for prices to increase. MMP would be available to ensure that the neighborhood family has the help they need to buy a home in their neighborhood even though prices are going up. MMP would also be available to the young family relocating to that area for the new jobs being created. MMP could in fact even partner with the tech company to become an employee recruitment and retention tool.

MMP in its current form accomplishes these goals for Opportunity Zones. The Department believes MMP will be in high demand in these areas next year and beyond as the initial investments take root. The increased funding will allow CDA to meet the higher level of demand and help to support the revitalization of Opportunity Zones.

Each year, DHCD allocates $1-1.5 million annually to support home buyers with disabilities. The Department will utilize $6 million to run its homeownership for student debt holders program – SmartBuy. The remaining $16 - $16.5 million in State-appropriated funds will be utilized to assist first time homebuyers in Maryland. This translates into $480 - $500 million in home purchases by 2,300-2,500 low to moderate income first time home buyers.

CDA runs its flagship Maryland Mortgage Program relying on both the tax exempt bond market as well as its ability to participate in the mortgage-backed security market. CDA used to provide on average a 2.5% of down-payment and closing cost assistance in FY 2016 when interest rates and home prices were lower, inventory of affordable homes was higher, and the first time homebuyers took advantage of these favorable market conditions and CDA assistance. With the current increase in home prices and interest rates, CDA has designed a set of loan products that rely on its recently re-established ability to raise low cost tax-exempt bond proceeds and offer borrowers a choice of below market interest rates, or down-payment and closing cost assistance at 3%-4%. Historically, CDA demonstrated that with greater access to DSELP and other downpayment and closing cost assistance funding, it can assist greater number of first time home buyers. The average MMP home purchase price back in FY 2016 was $193,000. In FY 2016 CDA deployed $16.1 million in DSELP funds to generate a total of $645 million in private capital to assist first time home buyers. The weighted average MMP interest rates in FY 2016 were at 3.92%; in FY 2018, the weighted average MMP interest rates were at 4.72%, average loan amount was $205,000 and more than 75% of the total MMP borrowers relied on the State appropriation and CDA for financial assistance. MMP borrowers used $8.5 million in State appropriated funds for down-payment and closing cost assistance for home purchases totaling over $380 million.

In FY 2019 – FY 2020 MMP projected interest rates will be at about 5.0% to 6.0% (or 1-2% higher than in FY 2016) with CDA subsidizing the interest rates to the borrowers through its access to tax-exempt bond markets. **The downpayment and closing cost assistance is projected to be 20%-60% higher than what was offered in FY 2016 and will continue to be a critical factor in maintaining affordability for the first time home-buyers in Maryland as an offset to higher purchase price levels and interest rates.** Each $1 in DSELP is projected to leverage more than $30 in private capital raised by CDA in the tax-exempt bond and mortgage-backed security markets.

To clarify some of the analyst's data points on Exhibit 13, CDA issues bonds both to refinance the existing debt and to generate proceeds for new mortgage loans. The chart in the Exhibit includes refunding bonds, which makes FY 2016 and FY 2017 issuance look disproportionately larger than the one in FY 2018. The chart also excludes hundreds of millions of dollars in capital raised through the taxable mortgage-backed securities market. CDA plans to increase its tax-exempt bond issuance multifold in FY 2019 and 2020 while maintaining and growing its presence in the taxable mortgage-backed securities market.

7. DLS Recommendation (page 22 of the analysis)

Partnership: DLS recommends deleting $2.55 million in GO bond funding for this program to be replaced by $2.55 million in general funds.

<u>DHCD Response</u>:
DHCD respectfully requests to retain GO Bonds for DHCD Capital Programs.

8. DLS Recommendation (page 22 of the analysis)

SEED: While DLS is not making a recommendation to reduce funding for this program since it is legislatively mandated, the budget committees may wish to consider reducing or eliminating funding for the program if no suitable projects can be identified.

<u>DHCD Response</u>:
DHCD respectfully disagrees that SEED funding should be considered for reduction or elimination, as there is a very high demand for SEED funds.

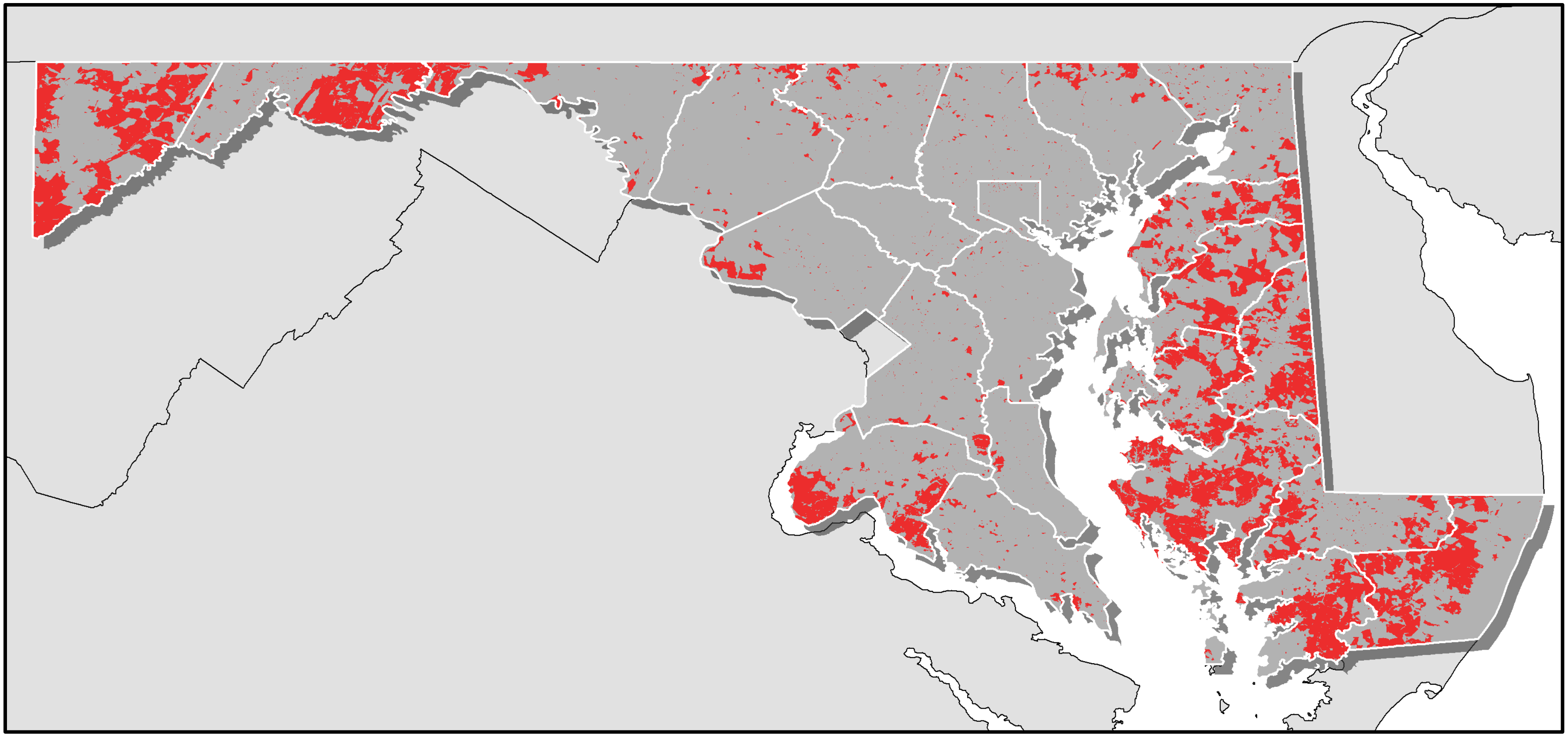
Below is a summary of unfunded projects from the FY19 round of revitalization funding that would have been eligible for SEED. These unfunded projects alone total $7.25 million. In addition, the following additional projects are also in the SEED pipeline and need funding in FY20:

- Comprehensive VIP Center: Violence Intervention and Prevention Center, Life Bridge Health, Sinai Campus, Baltimore City; total project cost of $12 million and would apply to SEED in FY20 for $2.5 million
- Baltimore Bio-tech Park Gateway Project: New commercial building at gateway intersection of Baltimore Street and Martin Luther King, Jr., Highway; $100 million investment with estimated gap of $10 million
- Velocity Center: $1.5 million to build out tenant space for technology incubator in Indian Head by the College of Southern Maryland.

Unfunded SFY 2019 Projects Meeting SEED Criteria

Organization	Eligible SEED Institutional Partner	Project Name	Project Description	Requested Funding
Charles County Chamber of Commerce Military Alliance Council, Inc.Bottom of Form	College of Southern Maryland	Ely's Property	Environmental remediation and demolition to support the reuse of the property as a technology incubator.	$550,000
City Life Builders	Morgan State University	Hoen Complex-Center for Neighborhood Innovation	Capital Funding for Hoen Lithograph, including funding for new construction management certification at Morgan.	$1,500,000
College Park City-University Partnership, Inc.	University of Maryland College Park	College Park City-University Partnership Homeownership Program	Continue and expand the successful Homeownership Program, strengthening neighborhoods, reducing commutes, and improving the economy.	$375,000
East Baltimore Development, Inc.	Johns Hopkins Hospital	EBDI Castle - Eager Street Site Preparation Project	Support the site preparation and infrastructure work needed on the Castle - Eager Street site to make way for residential development.	$700,000
East Baltimore Development, Inc.	Johns Hopkins Hospital	EBDI Community Reinvestment Fund	Support small business development and workforce development in and around the EBDI project area	$100,000
East Baltimore Development, Inc.	Johns Hopkins Hospital	EBDI Eager Park Security Camera Project	Security cameras at Eager Park within the EBDI area.	$480,000
East Baltimore Development, Inc.	Johns Hopkins Hospital	EBDI Infrastructure Project	Complete the streets, streetscape, sidewalks in the southeast section of EBDI footprint near the Henderson Hopkins school and upcoming housing development.	$1,000,000
Morgan State University Foundation	Morgan State University	Northwood Commons	Demolition and redevelopment of a blighted commercial retail shopping center immediately adjacent to Morgan State University into a thriving mixed-use "town center.”	$2,000,000

Unity Properties Inc.	Bon Secours Hospital	Unity Properties Community Revitalization Office	Acquire and rehabilitate a vacant rowhome to create Unity Properties' office in the heart of Bon Secours' Anchor Institution area in order to expand community services.	$500,000
Unity Properties Inc.	Bon Secours Hospital	New Shiloh III	Development of a multifamily affordable building on New Shiloh Campus where 80 units of senior housing and 73 units of family housing have already been developed. Demolition of vacant warehouse.	$600,000
			Total:	$7,255,000



Maryland Locations without 25Mbps Download and 3 Mbps Upload Advertised Speeds

From FCC Form 477 Data

RURAL BROADBAND Exhibit 1

Broadband Funding Summary

Assumptions

Unserved using FCC 2018 Broadband Progress Report estimates
based on FCC 477 data - census block level data
Unserved based on no available 25Mbps down x 3Mbps up service

unserved nationwide - urban and rural		7.7% (FCC 2018 Broadband Deployment Report, based on 2016 data)
unserved nationwide - rural only		30.7%
MD 2010 census population	5,800,000	
MD 2010 census rural population (areas not within a census urban area)	739,221	
assuming 3.5 persons/household		
assuming 12 houses/mile in rural unserved areas		
assumed per mile construction cost (aerial)		$35,000

	Total Pop (2010)	Rural Pop (census designation)	total unserved population	households @ 3.5 pop/household	unserved miles @ 12 houses/mi	construction cost @ $35k/mile	2019	FY2020	FY2021	FY 2022	FY2023	FY2024
Counties w/large areas of unserved assuming 30.7% unserved												
Allegany	75,087	20,499	6,293	1,798	150	$5,244,264			$5,244,264			
Caroline	33,066	25,130	7,715	2,204	184	$6,429,133					$6,429,133	
Charles	146,551	43,233	13,272	3,792	316	$11,060,326				$11,060,326		
Dorchester	32,618	18,331	5,628	1,608	134	$4,689,762		$4,689,762				
Garrett	30,097	25,251	7,752	2,215	185	$6,460,145			$6,460,145			
Harford	244,826	43,579	13,379	3,823	319	$11,148,968	$11,148,968					
Queen Anne's	47,798	26,050	7,997	2,285	190	$6,664,435		$6,664,435				
Somerset	26,470	12,123	3,722	1,063	89	$3,101,534						$3,101,534
Talbot	37,782	20,667	6,345	1,813	151	$5,287,245	$5,287,245					
Wicomico	98,733	25,473	7,820	2,234	186	$6,516,872						$6,516,872
Worcester	51,454	18,266	5,608	1,602	134	$4,673,095						$4,673,095
Sub-totals			85,531	24,437	2,036	$ 71,275,778	$16,436,213	$11,354,197	$11,704,409	$11,060,326	$6,429,133	$14,291,501
Counties w/pockets of unserved assuming 20% unserved												
Baltimore	804,990	52,324	10,465	2,990	249	$8,720,725				$8,720,725		
Cecil	101,108	42,566	8,513	2,432	203	$7,094,411		$7,094,411				
Kent	20,197	14,663	2,933	838	70	$2,443,837			$2,443,837			
Washington	147,430	43,492	8,698	2,485	207	$7,248,642					$7,248,642	
Sub-totals			161,011	46,003	3,834	$ 25,507,615	-	7,094,411	2,443,837	8,720,725	7,248,642	-
Counties w/pockets of unserved assuming 5% unserved												
Montgomery	971,777	23,323	1,166	333	28	$971,777			$971,777			
St. Mary's	105,151	52,996	2,650	757	63	$2,208,171			$2,208,171			
Sub-totals			3,816	1,090	91	$ 3,179,948	-	-	3,179,948	-	-	-
Totals			250,358	71,531	5,961	$99,963,341	$16,436,213	$18,448,608	$17,328,194	$19,781,051	$13,677,774	$14,291,501

RURAL BROADBAND Exhibit 2

Year		Technical Assistance		Matching Capital Contribution		Debt Service Reserve / Interim Financing & Financing Structuring Support		Operating Cash Flow Reserve		Operating Subscriber Subsidy			Total Budget
		Grants/Loans	Participants	Grants	Participants	Grants/Loans	Participants	Grants/Loans	Participants	Grants	Participants		
FY2019		$ 120,000	2	$ 880,000	2	$ 8,000,000 *	2	$ 500,000	2	$ 500,000	2		$ 10,000,000
FY2020		$ 180,000	3	$ 6,000,000	3	$ 2,500,000	3	$ 500,000	3	$ 500,000	3		$ 9,680,000
FY2021		$ 180,000	5	$ 6,500,000	5	$ 3,000,000	5	$ 750,000	5	$ 750,000	5		$ 11,180,000
FY2022		$ 180,000	2	$ 7,000,000	2	$ 3,500,000	2	$ 750,000	2	$ 750,000	2		$ 12,180,000
FY2023		$ 180,000	2	$ 6,000,000	2	$ 2,500,000	2	$ 750,000	2	$ 750,000	2		$ 10,180,000
FY2024		$ 180,000	3	$ 6,500,000	3	$ 3,000,000	3	$ 750,000	3	$ 750,000	3		$ 11,180,000
Totals		$ 1,020,000		$ 32,880,000		$ 22,500,000		$ 4,000,000		$ 4,000,000			$ 64,400,000

RURAL BROADBAND: Exhibit 3

Generic County Based Broadband Project Costs

Assumptions		
Total County Population	40,000	
Total Taxable Households (3.5 persons/household)	11,429	
Unserved Households (25% of taxable households)	2,857	
Expected houses/mile	12	
Cost/mile (fiber)	$35,000	
Subscriber Take Rate	30%	
Subscriber Base	857	
Loan Term (yr)	18	
Interest Rate (%)	3%	
monthly interest rate	0.25%	
compounding factor	1.714850874	
Miles of Infrastructure	238	
Cost of Infrastructure	$8,333,333	
Loan Only		
Monthly debt service	$49,976.94	
debt service cost per subscriber	$58.31	
debt service cost per house past	$17.49	
debt service cost per taxable household	$4.37	
debt service annual cost/taxable household		**$52.48**
Assume 50% grant/50% loan		
Grant amount	$4,166,667	
Loan amount	$4,166,667	
With Grant		
Monthly debt service	$24,988.47	
debt service cost per subscriber	$29.15	
debt service cost per house past	$8.75	
debt service cost per taxable household	$2.19	
debt service annual cost/taxable household		**$26.24**

RURAL BROADBAND: Exhibit 4